The law and economics of regulating ratings firms.

THE LAW AND ECONOMICS OF REGULATING RATINGS FIRMS

Harold Furchtgott-Roth, Robert W. Hahn, Anne Layne-Farrar


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Abstract

Consumers and producers frequently rely on product ratings, such as college rankings, restaurant reviews, and bond ratings. While much has been
written about the structure of ratings in particular industries, little has been written on the general structure of different ratings industries and whether government intervention is typically needed. This paper begins that inquiry by examining the market structure of different ratings industries, and considering the circumstances under which firms that provide ratings should be regulated. We find that most ratings firms operate in highly concentrated markets. We also find that most ratings firms determine their own testing standards and methods, although some industries have self-governing oversight bodies that offer their own accreditation standards. Despite the finding that many ratings industries are concentrated, our analysis suggests that market forces generally appear to be an effective mechanism for providing consumers and producers with useful ratings.
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